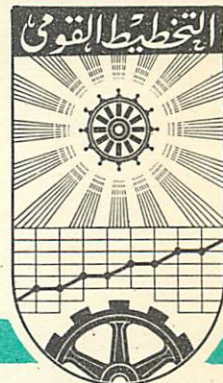


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Problems of Accelerated Growth.

Edited by
Dr. A. Hosny

March 1964.

PROBLEMS OF ACCELERATED GROWTH & MANPOWER
PLANNING IN DEVELOPING COUNTRIES.

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ACCELERATED GROWTH.

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The Nature of Growth.

The concept of growth is commonly used in the technical sense to refer to the growth of the volume of production. The short-coming of this definition is that it restricts the concept to the technical aspect of the process of growth, and excludes the social and human aspects.

To take care of these aspects, some economists propose to define growth as the capacity of the society to grow. According to this definition, the rate of growth of national product is not a sufficient indicator of the fundamental changes that take place. It has to be supplemented by other indicators to follow up the development of the human and social aspects.

Other economists propose the distinction between two concepts: growth and development. The concept of growth should be defined in the technical sense to mean the expansion of the productive capacity, without reference to the social or the human aspects. The concept of development, on the other hand, is defined to mean the growth of national product to a level determined by both the physical and the social capacities. The implications of this definition are:

- a) Growth should be sustained.
- b) Growth should result mainly from the performance of the national economy.
- c) Some social dimensions are added.

In this sense, development becomes social as well as economic. This qualification draws the attention to the social and human factor as a prerequisite for growth. One should not overlook the fact that the objective of development is the promotion of the well-being of the society.

Unless people, as producers and consumers, have the determination and capacity to achieve objective, growth, in its technical sense, will be meaningless.

The Concept of Accelerated Growth.Definition of Accelerated Growth:

Though the concept of accelerated growth is a familiar one in contemporary economic discussions, there is no agreement on the precise definition of the concept. Two interpretations can be distinguished:

The stage concept:

The first definition is Rostow's stage concept. According to this concept, the distinction is made between three stages through which a country may pass:

1. The "pre-development" stage, where per capita income is constant. The rate of growth of national income approximates the rate of growth of population, which is about 2% per annum.
2. The stage of "accelerated growth" where growth proceeds at an accelerated rate until the economy acquires the capacity to sustain its growth.
3. The stage of "self-propelling growth". This is the normal state of affairs in which the economy has the capacity for growth without any external driving force, and even without a conscious policy to induce growth by the government.

According to this stage classification, the concept of accelerated growth refers to the development of the economy in a particular stage. Two characteristics of this stage can be emphasized:

- a) It is the intermediate stage through which the economy passes from development to self-propelling growth.

- b) The rate of growth is increasing over time until it reaches the limit where it can be self-sustained.

Hence, accelerated growth is defined as the acceleration of the rate of growth of the national economy in a particular stage of its development.

The historical concept:

The second concept is Kuznet's historical concept. Historical evidence suggests that world development has been achieved in successive generations. In each generation, the rate of growth has been higher than that in the preceding one.

The pioneer country was the United Kingdom. Next came France, Germany and the United States. In this second generation, the rate of growth was higher than the rate of growth of the United Kingdom. This generation was followed by U.S.S.R. and Japan, where the rate of growth was higher.

This evidence suggests that the rate of growth is an increasing function of time. Hence, accelerated growth is defined as the capacity of each generation to grow at a higher rate than its predecessor.

Exponents of the stage concept claim that this historical concept implies the stage concept. That is to say, the historical evidence suggests that each economy passes through a stage in which the rate of growth is increasing over time. But defenders of the historical concept claim that their definition implies something more than that. It implies that the upper limit of growth attained by each generation is higher than the upper limit

attained by the preceding generation. According to their view, it is this particular evidence which is the essence of the concept of accelerated growth.

The Limits of Accelerated Growth:

By definition, the concept of acceleration, whether interpreted in the stage sense, or in the historical sense, implies that there is a lower limit for the rate of growth which is slightly higher than the rate of growth of population, allowing for a slight improvement in the standard of living.

But the concept raises the issue: Can acceleration be maintained indefinitely? Or is there an upper limit beyond which accelerated growth is impossible?

There is general agreement that acceleration cannot be maintained indefinitely. But there is disagreement about the precise height of the upper limit. The issue is directly linked with the definition of acceleration.

Interpreting acceleration in the stage sense, the upper limit is determined by the capacity of the economy to sustain its growth. Since different economies hence different capacities for growth, the height of the upper limit of acceleration cannot be quantitatively determined.

Interpreting acceleration in the historical sense, the upper limit is determined quantitatively by contemporary evidence.

Classifying the countries according to the level of per capita income, four classes can be distinguished:

1. The richest and oldest countries, like the United Kingdom, and the United States. This group is advancing at a comparatively slow rate.
2. The soviet Union, Germany and Japan. This group is advancing at a faster rate.
3. The new countries like Brazil and Mexico. This group is advancing at a faster rate than that achieved by the second group.
4. The under-developed countries in Asia and Africa. The development of these countries is remarkably slow.

Two propositions are derived from this classification:

The first is the tendency towards equalization between the first three classes, as a result of the acceleration of the rate of growth.

The second is that the principle of equalization does not apply to the fourth class. That is to say, there is no possibility that the countries which are now under-developed will be able to grow at a rate higher than that achieved by the third class.

This leads to the conclusion that the process of acceleration has already reached its summit, and the upper limit is determined by the rate of growth achieved by the last generation of developed countries.

The proposition that the summit of acceleration is quantitatively determined by historical and contemporary evidence is, however,

questionable. The cases of Germany and Japan are examples where this proposition is not strictly true. In both cases, the rate of growth exceeded the level of 10%, and it is not possible to conclude from the historical evidence that accelerated growth has already reached its summit.

This does not imply, however, that accelerated growth will go on indefinitely. It is quite possible that the speed of acceleration will reduce its speed.

This possibility is based on one of the following hypotheses.

1. The inability of certain factors which had contributed to accelerated growth in the past to operate now.
2. The emergence of new factors affecting adversely the rate of growth.

Several factors may be responsible for setting the upper limit of the process of acceleration.

1. Slackening of motivation for accelerated growth:

It is quite conceivable that after a certain level of wealth, the society may have a different motivation than progress. Factual evidence suggests that beyond a certain level of well-being, the economy may become disinterested in accumulating more capital, as they have enough savings, and rearrange their systems of wants accordingly to have more consumption.

2. The gap of technology:

The factor emphasized to explain the inapplicability of

the equalization principle to the under-developed countries, is the gap of technology between the under-developed and the advanced countries. It is claimed that acceleration was possible in the past because technology could be transmitted from one generation to another in a cumulative manner. The pioneer countries like the United Kingdom, had to create their own technology. The next generation of countries were in a better position since they had unexploited possibilities to apply the technology transmitted from the preceding generation. Between 1870 and 1910, the progress of technology was appreciable, and was sufficiently fast to give great opportunities for exploiting the possibilities of growth.

Since then, technology has advanced a very fast speed and has changed its nature. It has become so capital intensive that it is difficult to transmit the new innovations to the countries which are now under-developed. This unbridgeable gap of technology between the advanced and the under-developed countries is the factor responsible for setting up the upper limit of acceleration.

3. The exhaustion of the human and organizational capacity of the economy. In many countries, the capacity to grow humanly and organizationally is exhausted far before the capacity to accumulate physical capital.
4. The emergence of bottlenecks, specially in skilled manpower, may be one of the important factors setting a limit to acceleration.

11. 1970 population 4.1m.
5. The most important factor is the decline in investment opportunities. If the rate of saving far exceeds that of investment opportunities, it would be hardly possible that any growth can take place. The experience of the last decade indicates that investment opportunities in the highly developed countries are so minimized that the problem of saving has become a severe one.
 6. The population pressure may be greatly reduced. This is a more theoretical possibility, but it is possible that population may become stagnant, and accelerated growth will be adversely affected.

Preconditions of Accelerated Growth.

To start the process of accelerated growth, certain preconditions have to be satisfied:

Two sets of preconditions can be distinguished:

1. The direct preconditions which are mostly of economic nature.
2. The indirect precondition, which are mostly of social nature.

The main element of the problem of development is the balance between the social and economic factors. The availability of physical and human resources in appropriate proportions is a necessary precondition for growth. But the mere availability of resources is not a sufficient condition. To initiate the process of accelerated growth with security, other preconditions have to be satisfied:

1. The human and social factor:

The society must have the consciousness of development and determination to achieve the objective of accelerated growth. It must also be capable to build up and administer the appropriate institutions organizing efficiently the utilization of available resources .

2. Discipline:

The command by the government of the powers to influence the economy is a necessary precondition. The precise role of the government in the process of growth depends on the ideology of the society. But, even under capitalism, the government takes the responsibility of safeguarding

the interests of the economy, and setting up an efficient economic discipline to avoid frictions during the process of growth.

3. Planning:

So long as the process of growth is not self-propelling, planning is a necessary precondition. But formal planning is not sufficient, unless the society has the determination and capacity to implement the development plans.

4. Favourable international setting:

The progress of the newly developing countries requires a favourable international setting in which the advanced countries take the initiative to promote international cooperation in the field of development. These conditions have proved their importance in the remarkable development of countries like the Soviet Union and Western Europe. But the relative importance of the different conditions is not the same everywhere.

The problem facing the under-developed countries is that at least some of these preconditions are lacking. It is this fact which explains the state of under-development in these countries. The initiation of the process of accelerated growth requires drastic actions on the national and international levels.

Physical and Human Resources.

Economic development depends primarily on the availability of physical and human resources which participate in the production process. To avoid bottlenecks during the process of development, two conditions are required:

1. Resources have to grow at an accelerated rate.
2. Resources have to be increased in appropriate proportions.

The acceleration of growth of resources is a necessary, but not a sufficient condition. The condition of proportionality is to be satisfied to ensure balanced growth in supply. The implication of this condition is that the rate of growth of physical resources need not be the same as that of human resources.

Acceleration of Capital Formation:

The acceleration of growth of gross national product requires the acceleration of the rate of capital formation.

Domestic savings are the primary source of financing capital formation. Their importance as one of the basic preconditions is unquestionable. It might have been the most important factor responsible for the remarkable development in Western Europe. The importance of this factor in the Soviet Union is emphasized too, but the flow of voluntary savings was not sufficient enough to initiate accelerated growth, and the people were forced to raise the rate of savings by "tightening their belts".

The developing countries are in a different position. Their problem is that they cannot accelerate their rate of savings in the same manner and if they depend on their own savings, the rate of growth might be rather slow.

Two specific hindrances to the acceleration of savings are obvious.

1. The low level of per capita income.
2. The concentration of the production of primary products for export.

The first factor is a well-known one, and does not need more elaboration. The second factor should not be overlooked. In the existing international setting, this factor is a serious impediment to the acceleration of rate of capital formation. The sharp short-term fluctuations in the terms of trade increase risks and uncertainty and accordingly depress the incentive to invest. In many countries, these fluctuations are superimposed on a downward trend which has the further effect of depressing the capacity to save.

The long-run solution to the problem of savings is the development of the economy, with emphasis on industrialisation. This has the double effect of raising per capita income, and reducing the depressing effects of the terms of trade.

Other subsidiary factors are responsible for the low rates of capital formation, such as waste and lack of saving institutions. Reduction of waste is equivalent to a rise in gross national product, thus, contributes

to the availability of resources for physical capital formation. The expansion of the services of saving institutions is essential for the mobilisation of savings and the allocation of investment to industrialisation.

In spite of these factors which depress personal savings, there is a feeling that there are possibilities for increasing institutional savings. Public savings can be augmented through taxes, and corporate savings can be augmented through increased profits. The rate of domestic savings may not, however, be adequate to meet the requirements of accelerated growth. To fill the gap, the advanced countries have to put a part of their savings at the disposal of the under-developed countries for the purpose of development. This should not be considered as an act of charity, but as a matter of good economy for the future.

Human Resources:

Human resources are defined as the whole stock of knowledge possessed by the society. The problem of developing human resources is not confined to the production of knowledge, but includes also all the means by which knowledge can be distributed rapidly over the community as a whole.

Studies of economic growth in the developed countries like U.S.A. and U.K. emphasize the importance of the contribution of human resources in the process of economic growth. The U.S. National Bureau of Economic Research has sponsored a research which gave the result for U.S.A. economy between 1919 and 1957. The residual accounting for two-thirds in U.S.A. and three-quarters in U.K. is attributed to factors of human character. These factors include the improvement of basic services, in technology, administration, education and training. Nearly all these human factors are influenced by education in the broadest sense.

The importance of human resources in the under-developed countries is increasingly recognized. The shortage of skilled manpower is one of the serious bottlenecks which impede the process of development. Even if the country is able to increase its physical assets at an accelerated rate, it may not be capable of efficient utilisation of the expanding production capacity because of the lack of sufficient human resources.

Accelerated growth of human resources, perhaps at a rate higher than the rate of capital formation, is a necessary precondition of accelerated growth of gross national product. The normal means of developing human resources is the expansion of the educational system. This system involves many issues which form the subject-matter of education planning. Besides the expansion of education, the development of human resources can be accelerated by the following means:

1. The utilisation of education and training facilities in the advanced countries to educate and train personnel sent by the developing countries. This course may be cheaper in the short run, and may be adopted by the small countries in the early stages of development. But against the short-term advantage, there is the risk that the developing country may lose their high-level manpower who refuse to return home or who drift out of the country ultimately, even if they return temporarily. The risk gives concern to the United Nations in connection with its fellowship programs. Also, it is one of the factors to be taken into account in deciding between sending students abroad for education, against building up national education institutions.

2. The improvement of health conditions to reduce the loss of qualified people by mortality. This course of action raises the problem of the allocation of human investment between the different sectors within the human resources. How much to invest in health and how much to invest in education? Investment in health has the effect of prolonging the life of the human capital. It can also increase the efficiency of human resources and their availability. Calculation of the returns of investment in health on the basis of the length of life during which the experience of the educated people is utilised, gives the result that this type of investment is a very substantial factor in increasing the value of education.

3. The reform of the educational system to shorten the period of education and training. It is generally accepted that this course of action has the double effect of giving quick returns or reduced costs.

It is recognised that there is a certain minimum period that is required to gain industrial experience. But the point is, how to shorten the period by which technicians get this minimum experience.

Though accelerated education is desirable as a condition of accelerated growth, it involves certain risks. The first, and most important risk is the social tension created by the unemployment of educated people because of the difficulty of entrance into industry.

The emphasis on the cultural value of education at the expense of the utilitarian value, has had the effect of turning out thousands of young people who could not be employed, and for them there is no further technical training facilities. If this goes too far in a developing country, it can create social undesirabilities which could in its turn have dangerous political considerations .

On the other hand, if a part of the population is left uneducated, a dual society will be created, which will result in the end in social tension. Temporary tension created by accelerated education seems to be unavoidable in the early stages of development.

The second risk is that accelerated education may lead to the inflexibility of the labour-force, as a result of over-specialization. It is probable that in the long run, education may lead to social mobility, thus creating the psychological impetus to economic development. The slacking of the development of human resources is, on the other hand, undesirable. It creates bottlenecks which may have serious effects on economic development.

To alleviate these risks, efforts to develop human resources should be directly linked with the efforts to expand the physical production capacity. The balance between investment in human resources and investment in physical resources is an essential condition for balanced accelerated growth.

The Human and Social Factor:

Contemporary thinking is placing more emphasis on investment in human resources than on investment in physical resources. Socio-economic analysis suggests that the formation of physical capital is the result of some underlying human factors. An educated and flexible population that has characteristics, the attitude, and the capacity for growth leads to the creation of investment opportunities, and the utilisation of the opportunities that already exist.

Social Attitudes:

A favourable social attitude towards development is a precondition necessary to accumulate capital and to maintain the efficiency of the production process. Growth cannot be accelerated, unless the society has the determination and willingness to satisfy at least the following conditions:

1. The motivation to advance to a high standard of well-being, and the willingness to bear the sacrifice required to promote progress .
2. The willingness to cooperate or to avoid the conflict of individual or class interests.
3. The promotion of the sense of innovation and the persistence to catch up with the technological progress taking place in the more advanced countries.
4. The willingness to take the risks of opening new investment opportunities and new areas of activity.
5. The promotion of the sense of responsibility and prevention of corruption.

These social attitudes can be learnt by any society, and there is no reason, to assume that some societies are capable for development, while others are not.

It follows that development is primarily a cultural decision, i.e. it implies the acceptance of new sets of social values. It has to be realised that the social transformation is not a smooth process; development in the cultural sense may be resisted by some sections of the society who remain loyal to the traditional sets of values. Thus, cultural development may lag behind technical development. This lag is responsible for a great deal of frictions and social tension which threaten the process of growth.

The System of Wants:

The human factor operates in another way. The ultimate end of economic activity is the satisfaction of wants. Unless the society is willing to change its system of wants, there will be no motivation for accelerated growth.

The system of wants is itself a part of the cultural reality. With the changes in the social culture, the system of wants undergoes three types of changes:

1. The quantitative type of change, i.e. the intensity of satisfaction of wants.
2. The qualitative type of change, i.e. the appearance of new types of wants.
3. The institutional type of change, i.e. the desire for the modernization of institutions.

The "demonstration effect" plays a significant role in bringing about these types of changes, in the developing countries. The new types of wants and the modernization of institutions are usually borrowed from the advanced countries. The changes in the system of wants creates these types of problems:

The first is the pressure on domestic resources; The quantitative changes in the system of wants may lead to a burst of demand for consumption goods. The rate of increase of consumption may exceed the rate of increase of national product. The disparity between the two rates creates a pressure on domestic resources, the result of which is either a shortage of the resources available for investment or the appearance of unsatisfied wants. Both alternatives impede the acceleration of growth.

The second problem is the disequilibrium between the pattern of production and the pattern of demand. The transformation of the system of wants creates up a new pattern of demand which is, more or less, borrowed from the advanced countries. The transformation of the pattern of production in the developing countries lags behind the transformation of the pattern of demand. The result is the disequilibrium between the two patterns.

The changes in the character of the technological progress taking place in the advanced countries is one of the primary factors responsible for this disequilibrium. Reference has been made to the gap of technology between the under-developed and the advanced countries, created by the difficulty of transmitting the technological innovations which are taking place in the advanced countries to the under-developed countries through the production process.

Besides this, another development is taking place in the advanced countries. Technology has become a social and political institution. In

the advanced countries. Technology has become a social and political institution. In these countries, particularly the United States and the Soviet Union, priority is given to innovation, not only as applied to transform; the production process, but also to mould the social structure. This fountain of innovation is like shock-waves, spreading in the society. These shock-waves advance in techniques, affect the under-developed countries from the supply side and the institutional side rather too quick, while they are not easily transmittable to the production process.

The discrepancy between the pace of transmission of the production effect and transmission of the demand effect of technology explains the disequilibrium between the pattern of production and of the pattern of demand.

Equity and Social Justice:

To promote public interest and national determination to accelerate growth, everyone must have share in the benefits of development, that is to say, the increase in per capita income should eventually be widely shared. This is also a strategic necessity in order to mitigate tensions that arise in the process of economic development.

This raises the issue of distribution of national income as one of the determinants of accelerated growth. One of the objectives of development policy is to have a society in which the differences are not too large. This issue of income distribution has a bearing on both the education policy and the investment policy.

In the Scandinavian countries, it is observed that the unskilled labourers are paid higher compared with skilled labourers by about 15%. The wage differentials is a reflection of the relative supply position of qualified and unqualified workers, which is brought about by education.

The situation in the under-developed countries is different.

Wages are differentiated in favour of skilled workers. The accelerated demand for high quality technicians, as a result of accelerated growth, may widen the wage differentials. This possibility have to be taken into consideration in education planning.

As regards employment policy, employment expansion is the normal, but not the sole, method of sharing the gains from rising incomes. Making full use of the labour force and of labour intensive technology in the developmet effort leads to more equitable distribution of income, and to higher consumption; whereas capital intensive technology leads to the more of investment, but less equitable distribution of income. That is to say, equity and maximization of income may be two conflicting objectives. The development policy has to ensure the balance between the social and economic objectives.

The Role of the Public Sector .

The principle that the public sector has a fundamental role in economic development is generally accepted. The tasks of the public sector are:

1. The responsibility for about 50% of net capital formation, even in those countries in which production is left to the private sector.
2. The determination of the pattern of preconditions and funds.
3. The responsibility for administration and security.
4. The responsibility for establishing the right kind of institutions.
5. Development policies: fiscal and monetary, trade, agricultural, investments, social and geographical policies.
6. The responsibility for the essential services preparatory to development: statistics, industrial status, transport power, public utilities, etc.
7. Development planning, which is the best possible way of performing the tasks systematically.
8. Implementation of the development plans.

The appropriate scope of the public sector depends on certain factors:

1. The quality of the government as an instrument for economic development.
2. The social mechanism of government intervention.
3. The degree of interference with the entrepreneurial functions, not only in the private sector, but also within the framework of the public sector itself.
4. The social and political pressures which are the manifestation of the nationalist ideology.

5- The response of the private sector to the development plan.

A view is expressed that the real issue is the extent of the public sector. Each country is to be inspired by its own peculiar circumstances in delineating the appropriate scope of the public sector. But still the question is **worthy** of some reasoning. If at a certain stage of development, the public sector expands more than is justified by the peculiar circumstances of the country, the public sector may be a handicap to the **development** of the of the economy.

Accelerated Growth and Planning.

The definition of accelerated growth raises the issue: Is planning a precondition of accelerated growth?

In the traditional society, the components of the economy are so fitted that the spontaneous interplay of economic forces keeps the society in a stationary state. To put the system into dynamic action, three elements have to be introduced:

1. An objective.
- 2- A drive , i.e. a determination to achieve specified objectives.
- 3- A mechanism for collective mobilization of resources.

These three elements are implied in planning.

Planning in its general sense is defined to mean target-setting, determination, and a mechanism of mobilizing resources. In this sense, planning is a necessary precondition for accelerated growth.

Objectives of Planning:

The objective of planning is the optimisation of the utilisation of resources, i.e. the achievement of specified targets with minimum waste. It is generally agreed that the optimisation of gross national product should be the basic objective of planning, whether in the socialist countries or in the developing countries. This objective implies the maximisation of labour productivity.

In the developing countries, where the problem of under-employment is an acute one , the optimisation of gross national product may not be compatible with the optimisation of employment. The reconciliation of the two objectives is the major problem of manpower planning. But, whatever the solution of the problem is, the average productivity of labour must be optimised. This is the basic condition which has to

be satisfied in order to achieve the ultimate target of the society as a whole: The optimisation of satisfactions.

The optimisation of gross national product is limited by a number of objective conditions.

These are:

1. The political aims of the government, internally and externally.
2. The national resources of the country and the conditions of production in mining and agriculture.
3. Manpower supply, and the rate of growth of population in case of full employment.
4. The given level of skill, and the possibilities to train qualified workers.
5. The state of technique and the possibilities of utilisation of modern techniques.
6. The economic starting condition with respect to the level of employment, foreign exchange position, etc.

Within the framework of these political, natural, demographic, educational, technological and economic starting conditions, the optimum plan is the one which provides full proportionality between the following objectives:

1. Employment, i.e the creation of employment opportunities for unemployed manpower.
2. The development of the level of techniques in each branch of economic activity to maximize the productivity of labour and the efficiency of utilisation of physical resources.
3. The development of the standard of living.

- 4- The development of the structure and volume of foreign trade to correct structural disequilibrium in the balance of payment if it exists.

In this sense, the optimum plan provides the maximum rate of growth which can be achieved within the boundary of the limiting conditions.

The Drive Towards Optimality:

The condition of optimality, as defined above, may give the impression that the formulation of the national comprehensive plan is a necessary element of planning.

Planning in this sense is particularly necessary for the operation of a socialist economy in which production units are nationalized. Public ownership creates both the necessity for planning and, at the same time, provides the planning authorities with means strong enough to guarantee the execution of the plan.

Some economists doubt the influence of planning, even in the socialist economies. They believe, that the role of planning in these economies is overemphasized. The Soviet Union, for example, does not depend on planning as much as the Soviet authorities claim.

It is even claimed that formal planning is not a necessary precondition for growth. Some countries, like Japan and Western Germany, have been able to achieve high rates of growth, without resort to planning. These achievements are attributed to high rates of capital formation and improvement of labour productivity by training and education.

In other countries, like Ceylon, formal plans have been formulated, but are never implemented, and, consequently, little growth has been achieved.

These cases point out the most important element of planning: national determinateness and national consciousness. In the cases of Western Germany and Japan, the high rates of growth have been the result of the determination by the government and the public, to utilize available resources with maximum efficiency. Even in the Soviet Union, and other socialist countries, the rapid growth has been the result of national determination. In the case of Ceylon, the lack of this driving force explains the poor achievements in spite of the existence of formal plans.

The Mechanism of Mobilizing Resources:

Planning implies the operation of a mechanism for collective mobilization and allocation of resources.

Under the system of private enterprise, resources are mobilized through the market mechanism. Decisions taken independently by enterprises are supposed to be brought into harmony by the equilibrating mechanism of supply and demand.

Experience has proved that the coordination of the independent decisions through the market mechanism is not perfect. Waste of resources is unavoidable, because of risk and uncertainty.

Planners in the socialist countries advocate that central planning eliminates the waste caused by imperfection of the market. Centralisation of decision making ensures the coordination of the decisions which satisfies the condition of optimality. It is admitted that central planning delays the transmission of directions from the central planning authority to the organs responsible for the implementation of the plan, and may lead to decisions incompatible with consumer's preferences.

This defect can be corrected by delegating the power of making certain decisions to the executive organs, and allowing the market mechanism to guide the central planning authorities to consumer's preference.

The experience of planning in Poland is interesting. From 1949 until 1956, there had been a highly centralized system of planning. After a few years, it was felt that the system was a hindrance to the development of the economy. Some of the directives took much time to be transmitted and these delays caused inconvenience to both planners and business managers. A decentralization system of planning was then introduced. The system envisaged a price system controlled by the central authority with a wide range of choice for the executive organs in business, as to what to produce and what methods to apply. Connected with this, a system of incentives was introduced..

The role of the market is rather limited. It serves as a guide the orientation of production plans for customers goods only, but it does not serve as a guide to the allocation of investments. Both the level and structure of investment depend on the rate and direction of growth of the economy as a whole. So production targets and the corresponding allocation decisions were left almost wholly centralized.

The managed price mechanism could not help the central planning authority to take the decision and transmit directives to enterprises in due time for action.

Two procedures for a decentralized mechanism preparing centralized decision are adopted:

- a. Production decisions are based on data coming from enterprises and aggregated along industry lines.
- b. Investment decisions are based on applications of individual enterprises. Definite investment criteria devised by the central planning authority are applied before submitting the application to the central authority.

These two procedures help to facilitate the process of transmission of directives which is of crucial importance to central planning machinery.

Socialist economists advocate that principles of planning in socialist economies can be applicable to those developing countries where there is an extended public sector. But the question is whether the extension of the public sector is a necessary condition for development. The answer to this question depends on the social organisation, and the capability of the private sector to carry out the development plans.

International Setting of Accelerated Growth.

The rate of growth of the developing countries depends largely on the characteristics of their regional and international relations. There are factors that favour such growth, and there are others that retard it.

The terms of trade:

Economic activity of the under-developed economics is generally determined by one or two major export commodities. The first prerequisite for accelerated growth is the optimisation of the share of the producing country in the proceeds of these commodities and the relative stability of their prices at a reasonable level.

Many economists believe that contemporary international setting does not provide this condition. The prices of primary products produced by the under-developed countries are moving in a downward trend, while prices of manufactured commodities produced by the advanced countries are maintained at a fairly high level. The result of these movements is the trend of the terms of trade move in the long run against the developing countries. If the deterioration of the terms of trade of the developing countries is proved to be true, it would have a significant bearing on the capacity of those countries to save: the rate of saving would be kept at a level it is difficult to initiate accelerated growth. On the other hand, the improvement of the terms of trade of the advanced countries would contribute to the acceleration of the rate of saving. This contrast has induced some economists in the developing countries to believe that the advanced countries are growing at the expense of the developing countries.

The hypothesis that the terms of trade of the developing countries are moving in a secular downward trend is challenged by other economists.

They doubt whether available statistics are sufficient to support the hypothesis of the secular movement of the terms of trade. Even if the statistics prove that such a trend has actually existed, there is no *a-priori* reason why in the future the terms of trade should necessarily move against the developing countries producing primary products.

Apart from the controversy on the long run trend of the terms of trade, there is a general agreement that the prices of primary products are vulnerable to wide fluctuations, while the prices of manufactured commodities are relatively more stable. The instability of the terms of trade of the primary producing countries constitutes a hardship for under-developed countries.

These temporary fluctuations in prices of primary products can be met by commodity agreements. Another solution is the insurance scheme, proposed by the U.N. group of experts, according to which the losing countries be compensated for a certain portion of the loss suffered because of the fall of prices of their exports.

These are, however, temporary measures. The long-run solution is to switch from the production of primary goods to the production of manufactured goods. The way to this is development.

International specialization:

Growth may be promoted through international specialization. But specialization involves risks. The experience of the developing countries asserts the need for a thorough revision of the theory of comparative advantage, since the main factor of accelerated growth is not specialization

but intensive industrialization. Industrialization provides the means for attaining three major targets:

1. Maximisation of national product.
2. Diversification of production.
3. Expansion of employment.

To achieve these objectives, the industrialization program can be designed to process the materials produced at home in two types of industries:

1. Export industries established with the particular objective of competing in the world market.
2. Import-replacing industries, established to substitute domestic products for imports in the various stages of the production process. It has to be realised that the present international setting does not favour the promotion of export industries in the developing countries. Existing obstacles in the world market created by the highly industrialized countries limit the world market for the manufactured commodities produced by the newly developing countries. To give opportunities for the newly developing countries to promote their export industries, the present international setting has to be re-arranged. Two arrangements are possible.

The first is the liberalization of trade between the advanced and the developing countries. This arrangement requires the achievement of high efficiency in the export industries in the developing countries.

The second alternative is the establishment of regional markets for the newly developing countries, e.g. an African common market. This arrangement would permit greater scale and efficiency of output in each

member state serving the regional market, and yet at a lower level of efficiency than in the industries serving the world market.

Both arrangements have certain manpower implications. Export industries serving the world markets have to be established on a capital intensive pattern. It is not necessary to use such techniques if the export industries serve a regional market. With respect to import-replacing industries, the possibilities of success are more promising. The argument of infant industries generally applies. These industries can be sheltered behind tariffs. But a careful selection of the appropriate fields of industrialization is necessary. Costs and prices should be receptive to progressive decreases to gain the benefits of productivity and economics of scale. To maximize employment opportunities, these industries can be established on a labour-intensive basis, since these industries do not require high efficiency.

In both cases when labour-intensive technology is recommended to expand employment, it is important to reduce the labour cost resulting from resort to this technology, by efforts to develop management, to improve productivity, and to train labour. If the wage level is relatively high, consideration can be given to applying shadow prices if there is a clear national advantage of subsidizing the expansion of employment opportunities.

Balance of Payments Problems:

Chronic disequilibrium in the balance of payments experienced by the developing countries is a limiting factor to accelerated growth. The foreign exchange position determines, not only the scope of development, but also the content of the development programs. The application

of the foreign exchange criteria may justify the expansion of certain industries because they contribute to save foreign exchange resources, irrespective of efficiency.

The determination of the rate of exchange of the developing countries currencies is important not only for balance of payment reasons, but also in respect of future structural changes. For instance, an over-valued exchange rate tends to encourage the purchase of capital equipment in lieu of the use of labour saving devices, and is by the same token a deterrent to efficient maintenance practices, as the equipment can be replaced at relatively low cost.

The international economic frame work of the nineteenth century was effective in solving balance-of-payments problems. It is not possible in the present international setting to return to the gold standard. A new framework for international payments has to be set up to relieve the developing countries from the balance of payments pressures. International institutions, such as the International Monetary Fund and the International Bank for Reconstruction and Development have rendered a valuable service to the developing countries. The establishment of regional institutions, such as the proposed African Development Bank, is welcomed. But more effort in this direction is still required.

International Capital Flows:

If its growth is to be accelerated, the development of production cannot depend on the purchase of capital equipment on export proceeds alone. Capital import is a major contributing factor to accelerated growth. Some economists favour the flow of capital into a country in the form of equity.

Foreign private capital may fulfil a particularly important role in assisting in the development of export industries. It brings along with the technical experience, the knowledge of the international market. However, as it contributes to increase the foreign exchange earning capacity of the country, it more than offsets the future foreign exchange requirements to attend to the remittances of profit abroad. In other circumstances this factor could at a given stage, impair the steady and balanced growth which is as important as the accelerated growth in the process of development.

Financial assistance from international credit institutions or foreign governments is becoming increasingly significant in the effort of attaining accelerated growth. Although insignificant, funds are being made available in even larger amounts in a variety of forms—bankable loans at low interest or no interest bearing loans and outright grants. Inter-governmental loans with favourable conditions for their repayment including repayment in local currency, represent the great bulk of capital flowing into most of the developing countries. The fact that they are the best conducive to create future balance of payment problems, that they can be best channelled to the fields of investment, according to the pattern determined by the national plans, and that they do not make for friction with national interests of the economy are elements in favour of a continuous growing of these forms of international financing.

The International Flow of Knowledge:

An important element in the international setting is the flow of knowledge for the benefit of the developing countries, expert advice, training abroad and leadership training through exposure to different settings. Adaptation to conditions of developing countries calls for an effort that is often under-estimated.

Appraisal of the Present International Setting:

The mentioned factors point to the vital need for a favourable setting if development policies and programs in the developing countries are to be implemented at an accelerated rate. Yet, there is a strong feeling that the actual international setting handicaps the possibilities of accelerated growth.

The political factor may be responsible for the gap between the actual and ideal situations. International tension affects development in many ways. Defence programs in the advanced countries absorb a large part of public expenditure. The energy and resources of the advanced countries are exhausted by rearmament, if these resources are diverted to help the under-developed countries, they would make a good contribution to the progress of the world economy in general and to the acceleration of growth of the developing countries in particular.

Apart from the issue of defence, the political factor plays a role in shaping the economic relations between the advanced and the under-developed countries. Political suspicion, whether justified or not, is responsible for impeding the smooth flow of capital funds and the liberalization of trade.

International institutions have made a significant contribution to the promotion of international cooperation. The movement towards the formation of common regional markets is welcomed as an attempt to coordinate and articulate the various national developing economies through planning.